

Attachment B

On December 11, 2001, Ernst & Young issued an examination report related to the Company's compliance with Condition 24 of the Merger Conditions that also reported on the completeness and accuracy of eight service quality measures reported by the Company in accordance with the Business Rules. The Ernst & Young report included instances of noncompliance related to the completeness and accuracy of certain service quality measures for 2000, and such errors also impacted the completeness and accuracy of service quality measures related to 2001 that were filed by the Company prior to the release of the Ernst & Young report on December 11, 2001. On January 11, 2002, the Company accurately restated the following 2001 service quality measures for errors detected during the 2000 examination conducted by Ernst & Young.

- a. SNET improperly reported Installation Line Number 110 – Number of Orders Completed Within Five Working Days, as SNET reported the number of orders completed within three working days instead of five working days for January through September 2001 results.
- b. For PB and NB, the service quality measures related to Installation Line Numbers 110 and 125 contained errors resulting from the improper classification of California orders as Nevada orders for January through September 2001 results. Additionally, the Company did not properly report the disaggregation of service quality results at PB and NB between MSA and non-MSA for these same measures due to a data extraction error related to the coding of wire centers for January through September 2001 results.
- c. For PB and NB, trouble reports related to certain wire centers were improperly excluded from reported results as these wire centers were not coded as MSA or non-MSA resulting in errors in the Repair – Basic Service line numbers 300, 301, 320, and 345 for January through September 2001.
- d. For Ohio, the level of disaggregation related to repair call centers, for line number 550 – Answer Time Performance, was incorrectly reported for January through September 2001 due to the inclusion of abandoned calls that should have been excluded. For line number 550 – Answer Time Performance, January through September 2001 results were overstated due to data retrieval errors.

The following error also reported in the 2000 examination also impacted results in 2001. Management has informed us that due to system limitations, results cannot be restated.

- e. SWBT improperly excluded service orders related to Centrex, Integrated Services Digital Network ("ISDN"), and coin for Installation Line Numbers 110, 125, and 130.

The following errors relate to the completeness and accuracy of service quality measures reported during 2001.

- f. For SWBT, the level of disaggregation related to repair call centers, for line number 550 – Answer Time Performance, was incorrectly reported for September 2001 due to a clerical error. This measure was accurately restated in August 2002. For SNET, the level of disaggregation related to consumer business, for line number 550 – Answer Time Performance, was incorrectly reported for the months of April 2001, June 2001, July 2001, September 2001, October 2001, and December 2001 due to a spreadsheet formula error. The Company accurately restated these measures in August 2002.
- g. For Ameritech and SWBT, the calculation of line number 130 was incorrect as a result of the use of due dates instead of application date to determine held orders greater than 30 days from the last day of the month. For Pacific Bell, Nevada Bell, and SNET the calculation of line number 130 was incorrect as certain orders were improperly excluded from the reported results. The Company restated line number 130 for the months of October, November, and December 2001 for Pacific Bell and Nevada Bell in August 2002 and restated line number 130 for SWBT and AIT for the months of November and December 2001 in August 2002. The Company was unable to restate line number 130 for SNET or any other 2001 months in SWBT, AIT, Pacific Bell, and Nevada Bell due to system limitations.
- h. For Ameritech, January 2001 for line number 125 – Percentage Orders Completed by Due Date, was incorrectly reported in the state of Ohio due to a data error in line number 120 – Number of Orders for Which Installation Was Completed by the Established Due Date, that is used to derive line number 125. This measure was accurately restated in August 2002.

Attachment C

- a. In 2000, Supra Telecom filed a formal complaint with the Texas Public Utility Commission ("Texas PUC") alleging that the Company refused to collocate its 5ESS switch, violating compliance with Condition 11, "Collocation Compliance."
- b. On December 4, 2001, Heritage Technology ("Heritage") filed a formal complaint with the Texas PUC, alleging 1) an inability to lease dark fiber from the Company due to the Company's refusal to provide sufficient information regarding the availability of dark fiber without unnecessary and costly routing, and 2) improper denial of cageless and virtual collocation applications due to Heritage's request to place a fiber distribution panel. These allegations relate to Condition 11, "Collocation Compliance."
- c. On February 15, 2002, Birch Telecom filed a formal complaint with the Texas PUC alleging that the Company violated the requirements of Condition 8, "Uniform and Enhanced OSS," by introducing "last minute changes to the OSS release and allowing the Company's affiliate to continue to function while all CLECs were placed on blackout restriction during the release."
- d. On June 28, 2001, Navigator Telecommunications, L.L.C. ("Navigator") filed a formal complaint with the Arkansas Public Service Commission ("Arkansas PUC") alleging, among other things, that the Company's rates for certain recurring and nonrecurring charges related to the UNE-P based services that were contained in their approved interconnection agreement were excessive and inappropriate based on the service provided. This complaint relates to Condition 16, "Carrier-to-Carrier Promotions."

Report of Independent Accountants

To the Management of SBC Communications Inc.

1. We have examined the effectiveness of SBC Communications Inc.'s (the "Company" or "SBC") controls over compliance with the Merger Conditions¹ during the year based on the criteria set forth in the Merger Conditions and management's assertion, included in the accompanying Report of Management on the Effectiveness of Controls over Compliance with the Merger Conditions ("Report of Management"), that SBC maintained effective controls over the Company's compliance with the conditions set forth in the Merger Conditions for the year ended December 31, 2001 based on the criteria set forth in the Merger Conditions, except as noted therein. Additionally, as discussed in paragraph six below, we have examined the Company's controls over the accuracy and completeness of reported data related to eight service

¹ Merger Conditions are set forth in Appendix C of the Federal Communications Commission's ("FCC's") Order Approving the SBC/Ameritech Merger (*Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95 and 101 of the Commission's Rules*, CC Docket No. 98-141, *Memorandum Opinion and Order*, 14 FCC Rcd 11712 (1999)). Condition 11, "Collocation Compliance," of the Merger Conditions requires the Company to provide collocation consistent with the FCC's Collocation Rules as defined in paragraphs 555-607 in the *Implementation of Local Competition Provisions of the Telecommunications Act of 1996, First Report and Order and Fourth Notice of Proposed Rulemaking*, CC Docket No. 96-98 (FCC 96-325), 11 FCC Rcd 15499 (1996) ("Local Competition Order"), and *Deployment of Wireline Service Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *First Report and Order* (FCC 99-48), 14 FCC Rcd 4761 (1999), and as modified and expanded by *Deployment of Wireline Service Offering Advanced Telecommunications Capability and Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket Nos. 98-147 and 96-98, *Order on Reconsideration And Second Further Notice Of Proposed Rulemaking In CC Docket No. 98-147 And Fifth Further Notice of Proposed Rulemaking in CC Docket No. 96-98* (FCC 00-297), 15 FCC Rcd 17806 (2000), as modified by the waiver granted to SBC in *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *Memorandum Opinion and Order* (DA 00-2528), released November 7, 2000 ("Waiver Order"), as modified and expanded by *Deployment of Wireline Order* (FCC 01-204), 16 FCC Rcd 15435 (2001), including collocation rules codified in 47 C.F.R. Sections 51.319 (a)(2)(iv), 51.321, and 51.323 as modified by the waiver granted to SBC in the Waiver Order. Additionally, "Collocation Compliance" as referred to in this report includes compliance with certain collocation-related requirements applicable only to SBC, which were adopted as conditions to the FCC's order modifying the separate affiliate for advanced services requirements of the Merger Conditions. These collocation-related requirements are discussed in paragraphs 5(a), 5(b)(1), 5(b)(2), 5(c), 5(d), and 6 of Appendix A of the *Ameritech Corp., Transferor, and SBC Communications, Inc., Transferee, For Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Commission's Rules*, CC Docket No. 98-141 and ASD File No. 99-49, *Second Memorandum Opinion and Order* (FCC 00-336), rel. September 8, 2000 ("Pronto Order"). This examination did not include procedures necessary to determine compliance with the FCC's pricing rules.

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quality measurements calculated under the Business Rules² for the year ended December 31, 2001 and management's assertion, included in the accompanying Report of Management, that the Company maintained effective controls over the process to calculate and report accurate and complete data for the eight service quality measurements in accordance with the Business Rules for the year ended December 31, 2001, except as noted therein. The Company's management is responsible for maintaining effective controls over compliance with the Merger Conditions and for maintaining effective controls over the process to calculate and report accurate and complete service quality data measurements in accordance with the Business Rules. Our responsibility is to express an opinion based on our examination.

2. At the direction of the FCC Staff and the Company, this examination does not address the Company's controls over compliance with Condition 1 and the portion of Condition 11 related to compliance with the collocation-related requirements outlined in the Pronto Order, as defined in footnote one of this report ("Pronto Collocation Requirements"). Condition 1 is addressed in a separate agreed-upon procedures engagement report of Ernst & Young LLP. Controls over compliance with the Pronto Collocation Requirements will be the subject of a separate attestation report by Ernst & Young.
3. Except as discussed in paragraphs two, six, and seven c, our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the Company's controls over compliance with the requirements referenced above, testing and evaluating the design and operating effectiveness of those controls, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.
4. Because of inherent limitations in any control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of controls over compliance with the requirements referenced above to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

² "Business Rules" refers to the criteria agreed to by the Company and the FCC Staff on August 13, 2001 for reporting additional service quality results. These Business Rules are documented at <https://clec.sbc.com/clec/unrestr/custguide/clecarmis.cfm> and replace Sections III.1, III.2, and III.3. of the NARUC White Paper related to the reporting requirements of Condition 24.

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5. Condition 19, "Shared Transport in Ameritech States," requires the Company to offer shared transport in the Ameritech States under terms and conditions, other than rate, structure, and price, similar to those that it offered in Texas as of August 27, 1999. The FCC determined *In the Matter of SBC Communications, Inc. Apparent Liability for Forfeiture*, File No. EB-01-IH-0030 NAL/Acct. No. 200232080004, *Notice of Apparent Liability (NAL)*, that the Company violated Condition 19 by refusing to allow CLECs in the Ameritech States to utilize "shared transport" to provide end-to-end routing of intraLATA toll calls. The Company has disputed this *Notice of Apparent Liability* and asserted that Condition 19 does not require the Company to allow CLECs in the Ameritech States to utilize shared transport to route intraLATA toll calls. Based on the FCC's interpretation of the requirements of Condition 19 as stated in the NAL, the Company did not comply with the requirements of Condition 19. This matter is still pending as of the date of this report.
6. The Merger Conditions require the independent accountant to attest to the accuracy and completeness of the performance data, including restated data, provided to telecommunications carriers and regulators under the Merger Conditions. Based on the FCC Staff's interpretation of the Merger Conditions, the term "performance data" applies to both Condition 7 and Condition 24. However, under the Company's interpretation of the Merger Conditions, the Company does not believe that the scope of the independent accountant's attestation engagement regarding the Company's compliance with the Merger Conditions applies to the accuracy and completeness of service quality data in conjunction with Condition 24, but rather applies only to the accuracy and completeness of performance measurement data provided to telecommunications carriers and regulators in conjunction with Condition 7, "Carrier-to-Carrier Performance Plan." Due to the differing interpretations noted above, the FCC Staff and the Company agreed that Ernst & Young would test and report on the controls over the process to calculate and report complete and accurate service quality data for eight measures selected by the FCC Staff calculated under the Business Rules for the year ended December 31, 2001. On November 13, 2001, the Company filed revised service quality results with the FCC in accordance with the Business Rules for the months of January through June 2001. The Company informed us that during the discussions of definitions between the Company and the FCC Staff, the Company indicated certain of the service quality measures could not be restated on a retroactive basis in accordance with the Business Rules due to limitations within the existing abilities of the Company's systems to retrieve the data needed to restate certain measures. The service quality measures that the Company informed us could not be restated for the months of January through June 2001 are Installation Line Number 130, "Number of orders pending more than 30 days," for all regions. Accordingly, we are unable to, and do not, express an opinion on the controls over the process to

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calculate and report Installation Line Number 130, "Number of orders pending more than 30 days," for the period of January 1, 2001 to June 30, 2001. Subsequent to June 2001, the Company began filing service quality results in accordance with the new Business Rules. The FCC Staff selected eight service measures as listed below for Ernst & Young to test and report on the controls over the process to calculate and report accurate and complete service quality measures in accordance with the Business Rules for the year ended December 31, 2001.

Installation Measures

1. Line Number 110 – Number of orders completed within five working days
2. Line Number 125 – Percentage orders completed by due date
3. Line Number 130 – Number of orders pending more than 30 days

Repair – Basic Service

1. Line Number 300 – Number of closed trouble reports
2. Line Number 301 – Number of repeat trouble reports
3. Line Number 320 – Number of repair commitments met
4. Line Number 345 – Percent service restored within 24 hours

Answer Time Performance

1. Line Number 550 – Average live attendant answer time (seconds)

Our examination disclosed that the processes used to produce the eight service quality measures for Condition 24, "Additional Service Quality Reporting," did not include certain controls over some data input functions and some data retrieval functions as well as proper application of the Business Rules. This contributed to the need to restate certain data and modify certain performance measurements on a prospective basis.

7. Our examination disclosed the following related to the Company's controls over compliance with the Merger Conditions for the year ended December 31, 2001:
 - a. The processes to provide discounts required by Conditions 3, "Advanced Services Operations Support Systems," and 15, "Carrier-to-Carrier Promotions: Resale Discount," did not include certain controls to verify that all eligible and requested discounts by Competitive Local Exchange Carriers ("CLECs") were provided within the established time frames as specified in the Merger Conditions. Control

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deficiencies in the Ameritech States³ and at The Southern New England Telephone Company ("SNET") included deficiencies in controls to ensure the update of rate tables considered all merger-related discounts. Control deficiencies at Southwestern Bell Telephone, L.P. ("SWBT"), Pacific Bell, and Nevada Bell included deficiencies to ensure all eligible products were designated as discount eligible or were included in systems as discount eligible. Control deficiencies were noted in the Ameritech States, SWBT, Pacific Bell, and Nevada Bell related to the process to ensure all discounts were provided on usage-based service and, at SWBT only, related to the process to ensure discounts were provided on resold services on CLEC end-user customers that moved to another location ("T Orders").

- b. The process used to ensure the Company did not bill for loop conditioning on loops less than 12,000 feet and to obtain a requesting CLEC's authorization to perform conditioning, including agreement on cost, before proceeding on any conditioning as required by Condition 5, "Loop Conditioning Charges and Cost Studies," did not include certain controls during January and February 2001 to ensure that customer approval was obtained prior to billing or that billings were not sent.
- c. The processes used to produce the performance measurements for Condition 7, "Carrier-to-Carrier Performance Plan," did not include certain controls over some data input functions, changes to processes, some detection processes, and certain system controls. This contributed to the need to restate certain data and modify certain performance measurements on a prospective basis. As of the date of this report, the Company has not implemented a process to adjust voluntary payments to the U.S. Treasury when the performance measurement originally reported contained errors. Accordingly, we were unable to, and do not, express an opinion on the Company's controls over compliance with the requirement to accurately calculate and remit voluntary payments.
- d. The processes used to ensure compliance with the FCC's Collocation Rules did not include certain controls to verify that the Company posted updates to the Internet site indicating all premises that are full within the required 10-day period and that premises reported as exhausted were exhausted per Title 47 Part 51.321(h), to verify that the Company notified requesting carriers whether their physical collocation requests could be accommodated within eight business days

³ "Ameritech States" refers to Illinois Bell Telephone Company; Indiana Bell Telephone Company, Incorporated; Michigan Bell Telephone Company; The Ohio Bell Telephone Company; and Wisconsin Bell, Inc. collectively.

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(roughly, 11 calendar days) of the Company's receipt of a physical collocation application in accordance with the Waiver Order, or to ensure that the Company submitted to state commissions detailed floor plans or diagrams of any premises where the Company claims that physical collocation is not practical because of space limitations in accordance with Part 51.321(f). Additionally, the processes used to bill recurring and nonrecurring collocation charges to nonaffiliated telecommunication carriers did not ensure the bills were accurate and the collocation billing processes did not ensure that affiliated and nonaffiliated telecommunication carriers were billed timely for recurring and nonrecurring collocation charges.

- e. The processes used to ensure the annual compliance report is filed in accordance with Condition 26 did not ensure that the Company reported noncompliance related to Condition 3 at SWBT, noncompliance related to Condition 5 at SWBT, and noncompliance related to Condition 11 related to the submission of detailed floor plans or diagrams of any premises where the Company claims that physical collocation is not practical because of space limitations and untimely billing of recurring and nonrecurring collocation charges to nonaffiliated telecommunication carriers.
8. In our opinion, limited as to controls over compliance with Conditions 1, 7, and certain aspects of Condition 11 as discussed in paragraph two and seven c of this report, except for the effect of the control deficiencies described in paragraph seven above, and except for the impact of the statements and legal interpretations set forth by the FCC as discussed in paragraph five on the Company's controls, the Company maintained, in all material respects, effective controls over compliance with the Merger Conditions for the year ended December 31, 2001 based upon the criteria set forth in the Merger Conditions. Additionally, pertaining to Condition 24, limited as discussed in paragraph six of this report and except for the control deficiencies described in paragraph six above, the Company maintained, in all material respects, effective controls over the process to calculate and report accurate and complete data for the eight service quality measurements discussed in paragraph six above in accordance with the Business Rules for the year ended December 31, 2001.

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9. This report is intended solely for the information and use of the Company and the FCC and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

August 30, 2002



Report of Management on Compliance With the Merger Conditions

Management of SBC Communications Inc. (SBC or the Company) is responsible for complying with the conditions set forth in the Merger Conditions¹ for the year ended December 31, 2001. Additionally, management of SBC is responsible for reporting accurate and complete data related to the reporting of eight service quality measurements calculated under the Business Rules² for the year ended December 31, 2001. At the direction of the FCC, management's assertions that follow do not relate to compliance over Conditions 1, "Separate Affiliate for Advanced Services". Additionally, assertions

¹ Merger Conditions are set forth in the Appendix C of the Federal Communications Commission's (FCC's) Order Approving the SBC/Ameritech Merger. *Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95 and 101 of the Commission's Rules*, CC Docket No. 98-141, *Memorandum Opinion and Order*, 14 FCC Rcd 11712 (1999) (SBC/Ameritech Order). Condition 11 "Collocation Compliance" of the Merger Conditions requires the Company to provide collocation consistent with the FCC's Collocation Rules as defined in *Deployment of Wireline Service Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *First Report and Order* (FCC 99-48), 14 FCC Rcd 4761 (1999), as modified by *GTE Service Corporation v. FCC*, 205 F.3d 416 (D.C. Cir. 2000) ("GTE Service Corporation"), and as modified and expanded by *Deployment of Wireline Service Offering Advanced Telecommunications Capability and Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket Nos. 98-147 and 96-98, *Order on Reconsideration And Second Further Notice Of Proposed Rulemaking In CC Docket No. 98-147 And Fifth Further Notice of Proposed Rulemaking in CC Docket No. 96-98* (FCC 00-297), 15 FCC Rcd 17806 (2000), as modified by the waiver granted to SBC in *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *Memorandum Opinion and Order* (DA 00-2528), released November 7, 2000 ("Waiver Order"), as modified and expanded by *Deployment of Wireline Order* (FCC 01-204), 16 FCC Rcd 15435 (2001) and collocation rules codified in 47 C.F.R. Sections 51.319 (a)(2)(iv), 51.321 and 51.323 as modified by GTE Service Corporation and by the waiver granted to SBC in the Waiver Order. Additionally, "Collocation Compliance" as referenced in this management report includes compliance with certain collocation-related requirements applicable only to SBC/Ameritech, which were adopted as conditions to the Commission's order modifying the separate affiliate for advanced services requirements of the Merger Conditions. *Application of Ameritech Corp., Transferor, and SBC Communications, Inc., Transferee, For Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Commission's Rules*, CC Docket No. 98-141 and ASD File No. 99-49, *Second Memorandum Opinion and Order* (FCC 00-336), App. A, paras. 5(a), 5(b)(1), 5(b)(2), 5(c), 5(d) and 6 (rel. Sept. 8, 2000) ("Pronto Order"). As a result of the court's ruling in *ASCENT v. FCC*, 235 F.3d 662 (D.C. Cir. 2001), the separate affiliate for advanced services requirements in the Merger Conditions, including the collocation-related and other requirements adopted in the Pronto Order, automatically sunset no later than January 9, 2002. *SBC/Ameritech Order*, 14 Rcd 11712, App. C, Para. 12c; *Pronto Order*, FCC 00-336, App. A, para. 9. See also, *Application of GTE Corp. and Bell Atlantic Corp. for Consent to Transfer Control of Domestic and International Section 214 and 310 Authorizations and Applications to Transfer Control of a Submarine Cable Landing License*, CC Docket No. 98-184, *Order*, DA 01-1717, at para. 1, note 2 (rel. Jul. 19, 2001) (concluding that, under a comparable sunset provision in the Bell Atlantic/GTE merger, "the advanced services affiliate requirement will automatically sunset on January 9, 2002").

² "Business Rules" refers to the criteria agreed to by the Company and the FCC Staff on August 13, 2001 for reporting additional service quality results. These Business Rules are documented at <https://clec.sbc.com/clec/unrestr/custguide/clecarmis.cfm> and replace the installation and maintenance section of the NARUC White Paper reporting requirements of Condition 24.

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that follow do not relate to compliance with the collocation-related requirements outlined in the Pronto Order, as defined in footnote one of this report ("Pronto Collocation Requirements"), as such compliance will be the subject of a separate attestation engagement report by Ernst & Young. Management is also responsible for establishing and maintaining effective internal control over compliance with the Merger Conditions and for reporting accurate and complete service quality measures calculated under the Business Rules.

Management has performed evaluations of SBC's compliance with the requirements of the Merger Conditions for the year ended December 31, 2001 and reporting accurate and complete service quality data in accordance with the Business Rules. Based on these evaluations, we assert that during the year ended December 31, 2001, SBC complied with all requirements of the Merger Conditions considering the interpretations in assertion 11, 19 and 24 and except as specifically noted in assertions 3.d., 5.b., 7.a., 11.c., 15.b., and 26.d. In addition, as summarized below SBC provides further information regarding compliance with the Merger Conditions and the reporting of accurate and complete service quality data in accordance with the Business Rules.

Promoting equitable and efficient Advanced Services deployment

1. Separate Affiliate for Advanced Services

As provided in paragraph 67 of the Merger Conditions, compliance with this condition is addressed in a separate agreed-upon procedures engagement performed by Ernst & Young LLP (E&Y).

2. Discounted Surrogate Line Sharing Charges

This condition was sunset when line sharing was implemented on May 29, 2000.

3. Advanced Services Operations Support Systems (OSS)

The Company complied with the requirements of this Condition in the following manner:

- a. Not later than 180 days after the Merger Closing Date (MCD) and until the development and deployment of enhancements to existing Datagate and Electronic Data Interface (EDI) interfaces, SBC provided telecommunications carriers within the states of Arkansas, California, Kansas, Missouri, Nevada, Oklahoma, and Texas with access to the same pre-order interfaces utilized by SBC's retail operations in those states to provide theoretical loop length information, or SBC's retail operations utilized the same Datagate and/or Verigate pre-order interfaces that were available to unaffiliated telecommunications carriers to obtain theoretical local loop length information. Additionally, SBC provided unaffiliated telecommunications carriers access to

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- SBC's existing EDI interface for ordering within the states of Illinois, Indiana, Michigan, Ohio, and Wisconsin.
- b. SBC offered to provide unaffiliated telecommunications carriers with direct access to Service Order Retrieval and Distribution (SORD) or equivalent service order processing systems for pre-ordering and ordering xDSL and Advanced Services.
 - c. SBC deployed enhancements to the existing Datagate or EDI interfaces for pre-ordering and ordering xDSL and other Advanced Services in all of the required SBC states according to the Future Mode of Operation Timeline – Release Schedule in the Plan of Record filed April 3, 2000, and Phase 2 of the collaborative sessions ended on December 22, 2000. SBC completed the Phase 3 enhancements to Advanced Services OSS by the October 22, 2001 deadline. SBC filed notice with the FCC on October 23, 2001 (within three days of October 22, 2001) that the requirements of Phase 3 had been completed.
 - d. SBC provided telecommunications carriers the required discount of 25 percent from the recurring and nonrecurring charges for unbundled loops used to provide Advanced Services until after the October 22, 2001 date that OSS enhancements were deployed. (In Connecticut, the 25 percent discount was required to be provided for all of 2001 as the OSS enhancements are not required to be deployed until 2002.) However, during 2001, the Company learned that UNE loops provided for Integrated Services Digital Network Digital Subscriber Line (IDSL) at Nevada Bell, Pacific Bell and Southwestern Bell Telephone, L.P. (SWBT) were not being discounted. Additionally in SWBT, discounts were not provided on eligible CLEC orders for stand-alone Asymmetric Digital Subscriber Line (ADSL) loops within 60 days of initial billing for the service due to an error in the application of one Universal Service Order Code ("USOC"). The Company discovered in early 2001 that rate tables at the Southern New England Telephone Company ("SNET") had inadvertently been changed, discontinuing some discounts. The rate tables at SNET were corrected in April 2001, at which time retroactive credits were also issued. The Company also learned in early 2002 that orders at AIT for xDSL loops containing certain criteria were incorrectly processed, and thus, did not receive the required discount. The Company is in process of identifying the affected CLECs and associated order volumes and will promptly issue correcting credits upon determination.

4. Access to Loop Information for Advanced Services

The Company complied with the requirements of this Condition in the following manner:

- a. SBC provided CLECs with non-discriminatory access to the same local loop information for the deployment of xDSL and Advanced Services that was available to SBC's retail operations, including the retail operations of the Advanced Services affiliates.

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- b. SBC provided unaffiliated telecommunications carriers with non-discriminatory, electronic pre-order OSS access to the theoretical loop length on an individual address basis. Electronic pre-order OSS access was not required in the Ameritech states until 22 months after MCD, however SBC made preorder electronic access to loop length by individual address available in all regions in 2000.
- c. SBC provided unaffiliated telecommunications carriers with non-discriminatory, electronic pre-order Internet access to theoretical loop length based upon a zip code of end users in a wire center at no additional charge.
- d. SBC provided unaffiliated telecommunications carriers with non-discriminatory access to loop make-up information regarding the capability of loops to support Advanced Services that is available in SBC's records, in response to address-specific written requests. Pricing for this manual process was in compliance with any applicable Commission pricing rules for Unbundled Network Elements (UNEs).

5. Loop Conditioning Charges and Cost Studies

- a. The Company complied with the requirements of this Condition by filing all required cost studies with proposed rates for conditioning xDSL loops by April 5, 2000 (within 180 days of the MCD). The proposed rates were based on FCC and state commission UNE pricing requirements. During 2001, final approvals for state-specific rates were obtained in two additional states, and as of December 31, 2001, final approvals were pending in the five remaining states.
- b. While final approval of state-specific rates was pending, interim loop conditioning rates for xDSL loops were made available to Advanced Services Providers. Additionally, no charge was assessed for conditioning loops of less than 12,000 feet (based on theoretical loop length) and authorization to perform and agreement to pay were obtained from the provider before proceeding with conditioning work identified by SBC. However, due to a systems error at SWBT, CLEC orders submitted with a specific combination of ordering codes were inadvertently billed for loop conditioning in two months during 2001. In addition, clerical errors resulted in inadvertent billing of loop conditioning charges to a small number of manually processed orders.

6. Non-discriminatory Rollout of xDSL Services

The Company complied with the requirements of this Condition during the year ended December 31, 2001 in the following manner:

- a. Where SBC had deployed xDSL in at least 20 urban or 20 rural wire centers in a particular state, at least 10 percent of the urban or rural wire centers in which xDSL had been deployed were wire centers identified from the Low-Income Pool.
- b. SBC filed timely quarterly reports with the FCC describing the status of the xDSL roll-out. However, reports for the first and second quarters of 2001 omitted a few wirecenters or reported the wirecenter in the wrong income group, but this had no impact on meeting the minimum 10 percent low-income wirecenter deployment

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requirement. The Company submitted corrected reports for the first and second quarters of 2001 to the Commission on December 27, 2001.

Ensuring Open Local Markets

7. Carrier-to-Carrier Performance Plan (Including Performance Measurements)

The Company complied with the requirements of this Condition in the following manner:

- a. SBC reported, on a monthly basis and in each of its states according to the schedule established in Appendix A to the Merger Conditions, its performance in 20 measurement categories (with sub-measurements) that address functions that may have a particularly direct effect on CLECs and their customers. SBC provided the FCC staff with the required performance measurement data for each month during the year 2001 for the SWBT³, Pacific Bell, Nevada Bell, Ameritech and SNET regions. These files were transmitted by the 20th of each month or the first business day after the 20th when the due date was on a weekend or federal holiday. In addition, these performance measurement results were also posted to the SBC Internet web site coincident with the monthly transmittals to the FCC staff. SBC assessed proactively the quality of the data used for the measures and the results generated to make sure that they reported performance according to the letter and intent of the business rules. During 2001, nearly 60,000 disaggregations were reported with only a limited number of restatements that resulted in a measure either changing from "a make to a miss" or "a miss to a make". However, as noted in Attachment A, occasionally certain data filed during the year ended December 31, 2001 were either restated or corrected prospectively.
- b. SBC provided the Chief of the Common Carrier Bureau with notice of any changes to the design or calculation of these measurements adopted by the Texas or California State commissions. SBC notified the Chief of the Common Carrier Bureau on June 5, 2001 that the California Public Utility Commission had ordered changes to the SBC performance measurements. As directed by the Commission on June 18, 2001, these changes were implemented for the SBC states of California and Nevada effective May 1, 2001. SBC also notified the Accounting Safeguards Division in June 2001 that additional changes to the business rules had been ordered by the Texas Public Utilities Commission in May 2001 and of SBC's intent to review these changes at the next six month review of the performance measures. As directed by the FCC staff, notification and the request to implement the new rules in Arkansas and Missouri was provided simultaneously to the Secretary of the FCC and to the Chief of the Common Carrier Bureau on July 9, 2001.

³ Due to changes in the reporting period specified in the 1.7 version of the Texas business rules for the trunking measures, SWBT provided these performance measurements results in a supplemental transmittal each month.

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- c. The Chief of the Common Carrier Bureau determines whether and when SBC will implement such changes adopted by the Texas state commission in the remaining SBC states except for California and Nevada, and whether and when SBC will implement such changes adopted by the California state commission in Nevada. On January 23, 2001, the Chief, Accounting Safeguards Division, CCB approved SBC's December 7, 2000 request to extend the implementation deadline for business rule changes in the Ameritech states from January 2001 to March 2001 results reported on April 20, 2001. On May 4, 2001, Accounting Safeguard Division's staff approved SNET's plan to implement by June 2001, the Texas 1.7 business rules, the disaggregations required by the FCC line sharing order, the method for tracking performance results for the advanced services affiliate separate from the CLEC aggregate and the broadband measures specified in the Second Memorandum and Order in CC Docket 98-141. On June 13, 2001 (with subsequent modification on March 11, 2002), the FCC staff also approved implementation of the four Texas version 1.7 business rules (measures 1, 6c, 12c and 13c) which had been held in abeyance in the November 8, 2000 approval to implement the remaining business rules in the SWBT states. SBC also requested permission to implement the Texas 2.0 business rules at Ameritech and SNET on November 27, 2001. The FCC approved SBC's proposed business rule changes (with certain modifications) effective with January 2002 results, in a letter released December 21, 2001.
- d. The Plan was effective for the SBC service area within each state, except for Connecticut, until the earlier of (i) 36 months after the date that SBC was first potentially obligated to make Plan payments for that state, or (ii) the first date on which SBC was first authorized to provide in-region, interLATA services in that state. The FCC approved the Kansas/Oklahoma 271 application on January 19, 2001 effective March 7, 2001. The FCC issued a public notice on February 1, 2001 extinguishing the obligation to report performance measures for these states (DA 01-261). Accordingly, SBC provided the final report of Kansas and Oklahoma performance measures for February 2001 activity on March 20, 2001 for all measures except performance measure 15, Percent Trunk Blockage, which was filed on April 5, 2001. In addition, the FCC approved the Arkansas/Missouri 271 application on November 16, 2001, effective November 26, 2001. The FCC issued a public notice on December 13, 2001 extinguishing the obligation to report performance measures for these states (DA 01-2889). Accordingly, SBC provided the final report of Arkansas and Missouri performance measures for October 2001 activity on November 20, 2001 for all measures except performance measure 15, Percent Trunk Blockage, which was filed on December 18, 2001.
- e. The Carrier-to-Carrier Performance Plan attached the obligation for SBC to make voluntary payments to the U.S. Treasury in all SBC states where 271 approval has not been obtained. SBC and the FCC have been engaged in a dialogue regarding the appropriate application of the payment calculation methodology under certain circumstances. During the year ended December 31, 2001, SBC calculated payments using its proposed payment calculation methodology which was presented to the FCC staff on June 29, 2000 and further documented in a proposal submitted to Commission staff on August 10, 2000. SBC received additional

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explanation of the Common Carrier Bureau's (Bureau) views on the method for calculating payments under the Merger Order on February 6, 2002, and is in the process of implementing the Bureau's guidance. As further instructed by the FCC Staff on February 26, 2002, the final guidance is effective beginning with January 1, 2002 results so no recalculation of payments amounts for 2001 based on these methodology decisions is required. Each payment required related to 2001 performance results was made to the Commission within 30 days of when the performance results became available or on the first business day after 30 days when the due date was on a weekend or federal holiday. These voluntary payments were not included in the revenue requirements of any SBC ILEC. The Company provided notice to the Commission within five business days of each payment. The Company requested guidance from the FCC at the June 2001 Six Month Review on June 27, 2001, regarding the process to adjust voluntary payments to the U. S. Treasury. Adjustments are necessary in instances where performance data was either restated or where computational errors have occurred. Upon receipt of guidance from the FCC, the Company will implement a process in accordance with the guidance to adjust voluntary payments to the U. S. Treasury for instances where performance data is restated or computational errors in payment calculations have been found.

- f. Pursuant to the requirement that SBC and the Chief of the Common carrier Bureau shall jointly review the 20 measurements on a semi-annual basis, meetings were held between the FCC staff and SBC on June 27, 2001 and December 6, 2001 to review the performance measurements.
- g. The FCC, in its Order on Review, File No. EB-00-1H-0432 released May 29, 2001, affirmed the Enforcement Bureau's finding that SBC failed to report certain performance data in 1999 and 2000 in accordance with its published Business Rules adopted in the Carrier-to-Carrier Performance Plan and affirmed the imposition of an \$88 thousand forfeiture penalty. SBC paid the forfeiture penalty on June 28, 2001.

8. *Uniform and Enhanced OSS*

The Company complied with the requirements of this Condition in the following manner:

- a. SBC followed the terms of the amended Plan of Record ("POR") in its entirety as directed by the FCC on September 22, 2000. In addition, on April 9, 2001 SBC applied to the Arbitration Panel duly appointed pursuant to the Section III.j of the POR for an extension of the mandated release dates for certain pre-order and order interfaces. The Arbitration Award, as filed with the Commission on June 4, 2001, extended the release dates for the pre-order and order interfaces from September 29, 2001 for Pacific Bell, Nevada Bell, and SWBT, November 17, 2001 for Ameritech and April 20, 2002 for SNET to February 28, 2002, March 22, 2002 and June 30, 2002, respectively. On February 25, 2002, the Company submitted a letter to the Chief of the Common Carrier Bureau requesting to extend the deployment deadline for the development of uniform, electronic operations support

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- systems ("OSS") by 32 days. The FCC, in DA 02-695 dated March 22, 2002, granted the 32 day extension to April 24, 2002.
- b. The Company continued to offer to develop direct access to SORD and Ameritech's and SNET's equivalent service order processing systems, and to develop enhancements to the existing Electronic Bonding Interface (EBI) for OSS that support maintenance and repair services.
 - c. The Commission extended the target date for completion of Phase 1 of the Uniform Business Rules Plan of Record to March 15, 2001 in DA 01-454, released February 20, 2001 and then to April 30, 2001 in DA 01-594, released March 7, 2001. The Phase 2 collaborative sessions for the Uniform Business Rules Plan of Record began on April 30, 2001. The FCC, in DA 01-1915 adopted August 10, 2001 and released August 13, 2001, granted an extension of time for additional collaborative sessions and directed that Phase 2 would end on October 19, 2001. The FCC, in DA 01-2450 adopted October 18, 2001 and released October 19, 2001, granted a limited extension of time to conclude collaborative sessions on November 19, 2001. Based on this extension, Phase II ended on November 19, 2001. The Company has until April 19, 2003 to complete Phase III.
 - d. SBC continued implementation of the 13-state Change Management Plan (CMP) that was filed with the Commission on December 8, 2000. Several companies filed a response to that filing. SBC continued to negotiate with those companies and an agreement was reached. SBC filed the 13-state Change Management Plan with the commission of each of the 13-states on March 13, 2001.
 - e. All required notices regarding satisfaction of the target date for completion of various phases of the OSS Improvement Plan were completed within the timeframes required by the Merger Conditions.

9. Restructuring OSS Charges

The Company complied with the requirements of this Condition during the year ended December 31, 2001. The Company did not charge for the Remote Access Facility and Information Services Call Center or manual processing charges in excess of the charges that apply for processing similar orders submitted electronically for orders of 30 lines or less where SBC does not make an electronic interface available.

10. OSS Assistance to Qualifying CLECs

The Company complied with requirements of this Condition during the year ended December 31, 2001 by maintaining OSS expert teams available to provide OSS training and support to qualifying CLECs at no charge.

11. Collocation Compliance

The Company complied with the requirements of this Condition 11 "Collocation Compliance" during the year ended December 31, 2001 in the following manner:

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- a. The Company maintained the policy to issue refunds of 100 percent of the total non-recurring collocation costs to telecommunications carriers for collocation missed due dates in excess of 60 days.
- b. In certain states where an application for physical collocation was denied on the basis that physical collocation was not practical because of space limitations, the Company did not deliver detailed floor plans or diagrams to the state commission if the state commission had requested that such materials not be sent automatically but instead be delivered at such time as the state commission requests them. In May 2002, SBC amended its policy to submit floor plans to state commissions in all instances of space denials, regardless of whether or not the state commission requires them to be filed.
- c. SBC provided collocation consistent with the FCC's collocation rules as described in Attachment B, except as follows:
 1. Title (47 CFR 51.321(h)) requires the Company to maintain a publicly available document, posted for viewing on the ILEC's publicly available Internet site, indicating all premises that are full, and to update such a document within ten days of the date at which a premises runs out of physical collocation space. The Company's compliance with this rule, including the Company's collocation posting policy, was the subject of a FCC Enforcement Bureau action. See *In the Matter of SBC Communications Inc. Apparent Liability for Forfeiture*, File No. EB-00-IH-0326a NAL/Acct. No. 200132080015, *Order of Forfeiture*, DA 01-1273, released May 24, 2001 (Application for Review filed June 25, 2001), and *Order on Review*, FCC 02-61, released February 25, 2002. The Order of Forfeiture states: "SBC's policy is to post notice of exhausted collocation space only when it determines exhaustion has occurred, 'as a general matter . . . pursuant to the denial or partial denial of a collocation application, though it sometimes is made in the course of approving such an application or conducting an internal floor space assessment.'" *Id.* at para. 6. The Order found that SBC's policy was in conflict with the collocation posting rule and the Company had violated the rule. In certain instances in 2001, the Company posted updates to the Internet site after the required 10-day period. The Company implemented corrective action where needed, and has modified its posting policy, to ensure future postings are made on a timely basis. Concerning a modified posting policy, the Order stated: "We note that in SBC's pending application to the Commission to provide long distance service in Missouri, SBC proposed to modify its posting policy so as to post notice of a central office closing within 10 days of a collocation request or space assignment that would exhaust the collocation space at that central office. This approach would bring SBC into compliance with the rule." *Id.* at para. 10. SBC adopted this modified posting policy in 2001. Additionally, during 2002, the Company revised and strengthened its policy regarding removing premises from the Internet site in a timely manner, and will put in place methods and procedures reflecting this policy during the third quarter of 2002.
 2. The Waiver Order requires the Company to notify a requesting carrier whether its physical collocation space request can be accommodated within eight

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business days (roughly, 11 calendar days) of the Company's receipt of a physical collocation application, except to the extent a state has set its own intervals. In certain instances the Company did not provide notification to the carrier within the appropriate timeline of whether its physical collocation space request could be accommodated. At the beginning of 2001, the Company centralized operations on a 13 state basis, implemented new procedures and strengthened existing processes to ensure timely responses.

3. In some cases, the company incorrectly billed unaffiliated telecommunications carriers for collocation charges and did not bill its advanced services affiliates and unaffiliated telecommunications carriers on a timely basis. Centralization of operations in 2001 resulted in the development of new billing procedures and the strengthening of existing billing processes.
4. Title 47 Part 51.321 (f) requires the Company to submit to a state commission detailed floor plans or diagrams of any premises where the Company claims that physical collocation is not practical because of space limitations. In some cases, floor plans or diagrams were not submitted to a state commission. In May 2002, the Company revised its policy to submit floor plans to state commissions in all instances of physical space denials, regardless of whether the state commission requires them to be filed.

12. Most-Favored-Nation Provisions for Out-of-Region and In-Region Arrangements

The Company complied with the requirements of this Condition during the year ended December 31, 2001 by making available to telecommunications carriers eligible service arrangements (i.e., interconnection arrangements or UNEs) to which SBC was a party either as the incumbent in its 13-state region or as a telecommunications carrier outside of its 13-state region. SBC posted approved out-of-region agreements secured by SBC to SBC's Internet web site.

13. Multi-State Interconnection and Resale Agreement

The Company complied with the requirements of this Condition during the year ended December 31, 2001 by continuing to make available multi-state interconnection/resale agreements pursuant to requirements that pricing would be established on a state-by-state basis and that approval of the agreement in one state would not be a precondition for implementation in another state.

14. Carrier-to-Carrier Promotions: Unbundled Loop Discount

The Company complied with the requirements of this Condition during the year ended December 31, 2001 in the following manner:

- a. The Company offered the unbundled loop discount as required by this Condition. The requirement to offer the discount sunset on November 7, 2001 upon 24 months after the commencement of the offering window period in Connecticut, Kansas, Oklahoma, and Texas. The Condition sunset in Arkansas and Missouri on

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November 26, 2001 concurrent with authorization to provide in-region, interLATA services in those states as of that date.

- b. The Company continued to provide the unbundled loop discount for eligible loops ordered while the offering window was open.
- c. The reporting thresholds towards the maximum number of unbundled local loops that SBC was required to provide at the promotional discounted price were not met in any state during 2001.

15. Carrier-to-Carrier Promotions: Resale Discount

The Company complied with the requirements of this Condition during the year ended December 31, 2001 in the following manner:

- a. The Company continued to offer and provide the promotional resale discount required by this Condition during 2001.
- b. The Company, excluding SNET, experienced problems in applying discounts correctly for certain usage-based resale services during 2001 because of errors in billing system programming. In addition, Ameritech inadvertently removed the required discounts from resold services if the CLEC's end-user customer moved locations. Ameritech's systems do not retain the information required to calculate the credits, and the Company contacted affected CLECs to request information in order to calculate the appropriate credits and continues to apply these credits upon identification.
- c. SWBT provided Internet notice that as of June 30, 2001 that 50 percent of the maximum required quantity of resold lines at the Promotional Resale Discount rate plus Promotional End-to-End UNE-Combinations in service for Arkansas had been reached. The quantity of resold lines at the Promotional Resale Discount rate plus Promotional End-to-End UNE-Combinations in service for Arkansas subsequently declined to less than 50%. Otherwise, the reporting thresholds towards the maximum number of lines Promotional Resale Discount rate plus Promotional End-to-End UNE-Combinations that SBC was required to provide at the promotional discounted price were not met in any state during the year ended December 31, 2001.

16. Carrier-to-Carrier Promotions: UNE Platform

The Company complied with the requirements of this Condition during the year ended December 31, 2001 in the following manner:

- a. SBC continued to offer the UNE platform promotion required by this Condition during the year ended December 31, 2001 and provided the UNE platform promotion to requesting telecommunications carriers.
- b. Internal processes and procedures ensured the Company's wholesale business units were responsive to telecommunications carriers' requests for the UNE-Platform Promotion.

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- c. SWBT provided Internet notice that as of June 30, 2001 that 50 percent of the maximum required quantity of resold lines at the Promotional Resale Discount rate plus Promotional End-to-End UNE-Combinations in service for Arkansas had been reached. The quantity of resold lines at the Promotional Resale Discount rate plus Promotional End-to-End UNE-Combinations in service for Arkansas subsequently declined to less than 50%. Otherwise, the reporting thresholds towards the maximum number of lines Promotional Resale Discount rate plus Promotional End-to-End UNE-Combinations that SBC was required to provide at the promotional discounted price were not met in any state during the year ended December 31, 2001.

17. Offering of UNEs

The Company complied with this Condition during the year ended December 31, 2001 by continuing to make available all UNEs or combinations of UNEs offered as of January 24, 1999, under the same terms and conditions that such UNEs or combinations of UNEs were made available on that date.

18. Alternative Dispute Resolution through Mediation

The requirements of this Condition were implemented in 1999, and Alternative Dispute Resolution through Mediations (ADR) remained available during the year ended December 31, 2001.

19. Shared Transport in Ameritech States

The Company complied with the requirements of this Condition during the year ended December 31, 2001 in the following manner:

- a. During 2001, SBC offered availability of shared transport in Ameritech States under terms and conditions, other than rate structure and price, that were substantially similar to the most favorable terms SBC offered to CLECs in Texas as of August 27, 1999.
- b. The FCC's Enforcement Bureau, in its Notice of Apparent Liability for Forfeiture ("NAL"), File No. EB-01-1H-0030, released January 18, 2002 alleged that the Company, in violation of the Merger Order, did not provide shared transport in the Ameritech States under terms and conditions substantially similar to those that it offered in Texas as of August 27, 1999. The Company filed a response with the Commission on March 5, 2002 contesting the FCC's allegations. Resolution of the Commission's action is pending.

20. Access to Cabling in Multi-Unit Properties

The Company complied with the requirements of this Condition during the year ended December 31, 2001 in the following manner:

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- a. SBC, when hired to install new cables in a new or retrofitted MDU, sent letters to developers and property owners stating that, unless the property owner objected, SBC would install and provide new cables to a single point of interconnection. This offering was contingent upon the property owner or third party owning and controlling the cabling beyond the single point of interconnection.

Fostering Out-of-Territory Competitive Entry (National-Local Strategy)

21. Out-of-Territory Competitive Entry (National-Local Strategy)

The Company complied with the requirements of this Condition during the year ended December 31, 2001 in the following manner:

- a. On March 28, 2001, the Company notified the Commission that it had installed a local telephone exchange switching capacity and was providing facilities-based local exchange service to at least three unaffiliated customers in the following seven markets: Atlanta, Denver, Ft. Lauderdale, Minneapolis, New York, Philadelphia and Phoenix. On April 9, 2001 the Company notified the Commission (within 3 days of the required reporting deadline) that it had installed by April 8, 2001 local telephone exchange switching capacity and was providing facilities-based local exchange service to at least three unaffiliated customers in the following 10 markets: Baltimore, Bergen-Passiac, Middlesex, Nassau, Newark, Orlando, Salt Lake City, Tampa, Washington D.C. and West Palm Beach. In total, SBC notified the FCC that it had installed in 2001 local telephone exchange switching capacity and was providing facilities-based local exchange service to at least three unaffiliated customers in the above listed seventeen markets, five more than the required twelve markets to be deployed by April 8, 2001. Additionally, SBC began operations in the Charlotte and Louisville markets in November 2001, making a total of nineteen new markets that SBC entered in 2001.
- b. On September 28, 2001, prior to the October 8, 2001 deadline, the Company notified the Commission that it had satisfied the out-of-territory requirements of subparagraphs 59c(3)-(5)) for the Boston, Miami, and Seattle markets. The Company has collocated facilities in at least 10 wire centers in the market that could be used to provide facilities-based service to customers served by those wire centers, was offering facilities-based local exchange service to all business and residential customers served by the 10 wire centers in the market, and was offering local exchange service to all business customers and all residential customers throughout the areas in the market that were within the local service area of the incumbent RBOC located within the PMSA of the market or the incumbent service area of a Tier 1 incumbent LEC serving at least 10 percent of the access lines.
- c. On March 5, 2002 the Company notified the Commission that it had satisfied the Merger Conditions' out-of-territory initial entry requirements for the Charlotte, Jacksonville, Las Vegas, Louisville, Memphis, Nashville, Norfolk, Portland, Raleigh and Tucson markets. Additionally on March 5, 2002 the Company notified the Commission that it had satisfied the remaining Merger Conditions' out-of-territory requirements (i.e., those set forth in subparagraphs 59c(3)-(5)) for

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New York, Atlanta, Ft. Lauderdale, Phoenix, Denver, Salt Lake city, Washington D.C., Minneapolis, Orlando, Baltimore, Philadelphia, Tampa and West Palm Beach.

- d. On August 21, 2002 the Company notified the Commission that it had fulfilled all of the Out-Of-Territory Competitive Entry (National-Local Strategy) requirements and therefore this Condition has sunset.

Improving Residential Phone Service

22. InterLATA Services Pricing

The Company complied with the requirements of this Condition during the year ended December 31, 2001 by not charging mandatory, minimum monthly or flat-rate charges to any residential wireline customers in any in-region states where it had authority to offer interLATA services during 2001, nor to any out-of-region residential wireline customers in 2001. During the year ended December 31, 2001, the Company did offer customers optional, voluntary interLATA services pricing plans that included minimum monthly or minimum flat-rate charges.

23. Enhanced Lifeline Plans

The Company complied with the requirements of this Condition during the year ended December 31, 2001 in the following manner:

- a. SBC filed tariffs in states that accepted the enhanced Lifeline offer within 60 days of such acceptance.
- b. The Enhanced Lifeline plan has been implemented in all the states that accepted the offer with discounts of up to \$10.20 per month as required by the agreement.
- c. SBC established toll-free access numbers for voice or fax communication with current and potential customers, and modified voice response units at its service centers to incorporate enhanced Lifeline information for calls in which customers express an interest in obtaining new service where the enhanced Lifeline plan has been implemented.
- d. The Company implemented on-line verification of eligibility in those states in which terms were negotiated to permit the Company to access information necessary to verify a customer's participation in an eligible program.
- e. SBC established promotional budgets, as required by the merger agreement, to make potential customers aware of the enhanced Lifeline plan or other programs that benefit low-income consumers, and expenditures are on track to meet required minimum annual promotional budget levels as required.
- f. In those states where the plan has been implemented, appropriate methods and procedures were put in place to implement operational provisions of the enhanced Lifeline plan regarding payment arrangements for past due bills and no deposits are required for local service.

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- g. In a state where the enhanced Lifeline plan was implemented, existing Lifeline plan customers who would benefit, and in no way adversely affected, were switched to the enhanced Lifeline plan.

24. Additional Service Quality Reporting

The Company complied with the requirements of this Condition during the year ended December 31, 2001 in the following manner:

- a. SBC filed timely state-by-state retail service quality reports with the FCC, on a quarterly basis. Reports for the first two quarters of 2001 were filed in accordance with the recommendations of the NARUC White Paper. These criteria were amended by Business Rules adopted by the FCC Staff and the Company on August 10, 2001. By mutual agreement, the FCC Staff and Company decided on certain measurement definitions, with the understanding that some service quality results would not be reported on a retroactive basis in accordance with the Business Rules due to limitations within existing abilities of the Company's systems to retrieve the data needed to recreate certain measures. On October 10, 2001, the Company filed reports reflecting the new business rules for the months of October through December 2000. On November 13, 2001, the Company provided the FCC with service quality reports for the period January 2000 through June 2001 including restatements for the fourth quarter 2000, and additional restatements were filed with the FCC on January 11, 2002.
- b. SBC reported on a quarterly basis ARMIS local service quality data required by the FCC separately by state for each of its operating companies in accordance with Table I of ARMIS Report No. 43-05.
- c. SBC posted the above service quality data on a publicly accessible SBC Internet web site.
- d. All routine quarterly reports and web site postings were made no later than 50 days after quarter close or on the next business day when the deadline occurred on a weekend or federal holiday.

25. NRIC Participation

The Company complied with the requirements of Condition 25, "NRIC Participation" by its continuing participation in the Network Reliability and Interoperability Council (NRIC) during the year ended December 31, 2001.

Ensuring Compliance with and Enforcement of These Conditions

26. Compliance Program

The Company complied with the requirements of this Condition during the year ended December 31, 2001 in the following manner:

- a. A senior corporate officer served as Compliance Officer throughout 2001.

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- b. Notices provided to the FCC pursuant to specific notification requirements of the Merger Conditions were accurately and timely filed.
- c. On March 15, 2001, the Company filed its annual compliance report accurate to the best of its knowledge and belief at the time it was filed, which detailed its compliance with the Merger Conditions for the year ended December 31, 2000. On October 16, 2001, the Company filed with the FCC a supplement to the annual compliance report, which included information on items relevant to the 2000 Report Year which were not identified in the March 15, 2001 Report because they were discovered after that date. The supplement also included corrections of minor errors, none of which had an impact on the Company's compliance with the Merger Conditions.
- d. On March 15, 2002, the Company filed its annual compliance report accurate to the best of its knowledge and belief at the time it was filed, which detailed its compliance with the Merger Conditions for the year ended December 31, 2001. With regards to the March 15, 2002 annual compliance report, the Company did not report the exception regarding SWBT not providing discounts on all eligible CLEC orders for stand-alone ADSL loops within 60 days of the initial billing for the service due to an error in the application of a Universal Service Order Code ("USOC") as noted in paragraph 3.d. In addition, the Company did not report instances of noncompliance as disclosed in paragraph 5.b for inadvertent billing of loop conditioning charges related to Condition 5 and the Company did not report instances in which floor plans or diagrams were not submitted to a state commission as disclosed in paragraph 11.c.4 and in which affiliated and unaffiliated carriers were not billed for collocation on a timely basis as disclosed in paragraph 11.c.3. The Company plans to file a supplemental 2001 Annual Compliance Report and include the additional information noted above that has come to light subsequent to the filing of that report.

27. Independent Auditor

The Company complied with the requirements of this Condition during the year ended December 31, 2001 in the following manner:

- a. SBC engaged Ernst & Young LLP (E&Y) to examine its compliance with the Merger Conditions for 2001.
- b. SBC also engaged E&Y to perform an agreed-upon procedures engagement for the audit period 2001 regarding the separate Advanced Services affiliate requirements contained in Condition 1 of the Merger Conditions.
- c. SBC granted the independent auditor access to all books, records, operations, and personnel for the audits.
- d. On September 4, 2001, SBC filed with the FCC E&Y's Report of Independent Accountants on SBC's Report of Management on Compliance with the Merger Conditions regarding the Company's compliance during the year ended December 31, 2000. Condition 24 was excluded from this audit report. On August 13, 2001, the Commission granted SBC an extension until November 12, 2001 to file the Condition 24 report. The Commission subsequently approved an additional

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extension for the audit report for Condition 24 until December 12, 2001, at which time the Condition 24 audit report was filed with the Commission.

- e. On September 4, 2001, SBC filed with the FCC the Auditor's Report of Independent Accountants on Applying Agreed-Upon Procedures for 2000 in accordance with the separate Advanced Services affiliate requirements in Condition 1 of the Merger Conditions. On November 1, 2001, SBC filed the Auditor's Supplemental Report of Independent Accountants on Applying Agreed Upon Procedures (Supplemental Report), the filing date of which was approved by the Commission in DA 01-1945, released August 16, 2001. By agreement between the FCC and the Company, the purpose of the Supplemental Report was for the Auditor to obtain representation letters from responsible Company management regarding the fact that Southwestern Bell Communications Services (SBCS) complied with Section 272 requirements for the 12 months ended December 31, 2000 and therefore the Separate Affiliate requirements of Condition 1, with known exceptions noted.

28. Enforcement

This Condition obligates SBC to extend the effective period of a Condition and/or to make voluntary payments for non-performance required by the Conditions. The following addresses instances whereby SBC has been required to make voluntary payments for non-performance required by the Conditions or a forfeiture order has been issued:

- a. As indicated in the response for Condition 7, SBC made voluntary payments to the U.S. Treasury during 2001 related to Carrier-to-Carrier performance measurement requirements.
- b. The FCC, in its Order on Review, File No. EB-00-1H-0432 released May 29, 2001, affirmed the Enforcement Bureau's finding that SBC failed to report certain performance data in accordance with its published Business Rules adopted in the Carrier-to-Carrier Performance Plan during 1999 and 2000 and affirmed the imposition of an \$88,000 forfeiture penalty. SBC paid the forfeiture penalty on June 28, 2001.
- c. The FCC's Enforcement Bureau, in its Order of Forfeiture, File No. EB-00-1H-326a released May 24, 2001, alleged that SBC violated the Commission's rule regarding the timing of the posting of notices of premises that have run out of collocation space. On June 25, 2001, SBC filed an Application for Review with the Commission. The FCC, in its Order on Review, released February 25, 2002, affirmed the Enforcement Bureau's finding, but reduced the amount from \$94,500 to \$84,000. SBC paid the forfeiture penalty on March 27, 2002.
- d. The FCC's Enforcement Bureau, in its Notice of Apparent Liability for Forfeiture ("NAL"), File No. EB-01-1H-0030, released January 18, 2002 alleged that the Company did not provide shared transport in the Ameritech States under terms and conditions substantially similar to those that it offered in Texas as of August 27, 1999, in violation of the Merger Order. The Company filed a response with the

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Commission on March 5, 2002. Resolution of the Commission's action is pending.

29. Sunset

During the year ended December 31, 2001 certain aspects of the following Merger Conditions met sunset provisions:

- a. Condition 3 "Advanced Services Operations Support Systems (OSS)" reached sunset on October 22, 2001 when OSS enhancements were deployed (with the exception of Connecticut, where deployment is required in 2002) with respect to the required discount of 25 percent from the recurring and nonrecurring charges for unbundled loops used to provide Advanced Services.
- b. Condition 7: "Carrier-to-Carrier Performance Plan" sunset in 2001 with respect to Kansas and Oklahoma when FCC approved the Kansas/Oklahoma 271 application on January 19, 2001 effective March 7, 2001. The FCC issued a public notice on February 1, 2001 extinguishing the obligation to report performance measures for these states (DA 01-261). In addition, the FCC approved the Arkansas/Missouri 271 application on November 16, 2001, effective November 26, 2001. The FCC issued a public notice on December 13, 2001 extinguishing the obligation to report performance measures for these states (DA 01-2889).
- c. Condition 14: "Unbundled Loop Discount" sunset with respect to the requirement to offer the discount sunset on November 7, 2001 upon 24 months after commencement of the offering window period in Connecticut, Kansas, Oklahoma, and Texas; and in Arkansas and Missouri on November 26, 2001 concurrent with authorization to provide in-region, interLATA services.

30. Effect of Conditions

This Condition does not impose affirmative obligations on SBC; rather, it states the relationship of the Merger Conditions to state law, and vice versa. SBC followed this guidance in interpreting and applying the Merger Conditions.

Additional Information – Service Quality Measures

The Merger Conditions require the independent accountant to attest to the accuracy and completeness of the performance data, including restated data, provided to telecommunications carriers and regulators under the Merger Conditions. Based on the FCC Staff's interpretation of the Merger Conditions, the term "performance data" applies to both Condition 7 and Condition 24. However, under the Company's interpretation of the Merger Conditions, the Company does not believe that the scope of the independent accountant's attestation engagement regarding the Company's compliance with the Merger Conditions applies to the accuracy and completeness of service quality data in conjunction with Condition 24, but rather applies only to the accuracy and completeness of performance measurement data provided to telecommunications carriers and regulators in conjunction with Condition 7, "Carrier-to-Carrier Performance Plan." Due to the

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differing interpretations noted above, the FCC Staff and the Company agreed that Ernst & Young would test and report on the accuracy and completeness of eight service quality measurements as selected by the FCC Staff calculated under the Business Rules for the year ended December 31, 2001. On November 13, 2001, the Company filed with the FCC revised service quality results in accordance with the Business Rules for the months of January through June 2001. During the discussions of definitions between the Company and the FCC Staff, the Company indicated certain of the service quality measures could not be restated on a retroactive basis in accordance with the Business Rules due to limitations within the existing abilities of the Company's systems to retrieve the data needed to restate certain measures. The service quality measures that could not be restated for the months of January through June 2001 were Installation Line Number 130, "Number of orders pending more than 30 days," for all regions. Subsequent to June 2001 the Company began filing service quality results in accordance with the new Business Rules. The FCC Staff selected eight service quality measures as listed below for Ernst & Young to test and report on the accuracy and completeness for the year ended December 31, 2001.

Installation Measures

Line Number 110 – Number of orders completed within five working days

Line Number 125 – Percentage orders completed by due date

Line Number 130 – Number of orders pending more than 30 days

Repair – Basic Service

Line Number 300 – Number closed trouble reports

Line Number 301 – Number repeat trouble reports

Line Number 320 – Number repair commitments met

Line Number 345 – Percent service restored within 24 hours

Answer Time Performance

Line Number 550 – Average live attendant answer time (seconds)

SBC has also performed an evaluation of the accuracy and completeness of the service quality measures restated in accordance with the Business Rules for the eight line items listed above for 2001, except for Line 130 that could not be restated for the first six months of 2001 as discussed above. Based on this evaluation, we assert that service quality data for the eight reporting items above, for 2001, was complete and accurate except for the instances disclosed in Attachment C of this report.

Additional Information – Complaints

Ernst and Young's Report of Independent Accountants disclosed various formal complaints⁴ filed with the FCC or a state regulatory commission that were unresolved as of the date of the report. Such complaints, which allege noncompliance with the Merger

⁴ The listing of formal complaints was compiled from the Company's internal records and supported through Ernst and Young's confirmation with FCC staff and state commissions through August 1, 2002.

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Conditions during the year ended December 31, 2001 and which are not related to issues covered in the report, are included in Attachment C to their Report of Independent Accountants. The Company disputes such complaints and contends that it has complied with the Merger Conditions.

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Date: 08-30-02

SBC Communications Inc.

By: M. N. Gilliam

Michael N. Gilliam

Vice President - Compliance

FCC Corporate Compliance Officer